



GULF PETROCHEMICAL INDUSTRIES COMPANY



A N N U A L R E P O R T

2 0 0 4





**H.M. King Fahad bin
Abdulaziz Al-Saud**
Custodian of the Two Holy Mosques
Kingdom of Saudi Arabia



**H.M. King Hamad Bin Isa
Al-Khalifa**
King of the
Kingdom of Bahrain



**H.H. Shaikh Jaber Al Ahmed
Al-Jaber Al Sabah**
Amir of the
State of Kuwait





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CHAIRMAN'S MESSAGE

When one reviews GPIC's results for 2004, one is immediately impressed with the substantial financial success of the company for the year. Reliable production, safe and efficient operation, consistent high quality maintenance and technical back-up services all combined to make 2004 a very successful year for GPIC in which a net profit of US\$ 95.7 million was realised.

There were also many memorable achievements and special occasions during 2004. The GPIC Club for all employees was inaugurated and has proved a very popular facility for all members of staff and their families. Safety achievements continued to be garnered. A 'Highly Commended' Award from RoSPA, UK was followed by the Ministry of Labour and Social Affairs' Award for Industrial Safety and Health for 2004. The lost time accident-free employee-hours totalled 3.2 million by year end.

The various environmental projects and initiatives of the company continued successfully. A solid sponsorship for environmental research projects in schools was established in conjunction with the Ministry of Education and is already bearing fruit. The GPIC environmental lectures to school children were expanded and enhanced.

These extramural successes were made possible by the solid operational performance of the company. GPIC produced 1,286,908 tonnes of product in total, of which 1,045,571 tonnes were safely exported on 65 ships, meeting all our customers' requirements.

It is no coincidence that GPIC's Urea export facilities were the first to qualify for Level 1 Systems Status from the Australian Quarantine Inspection Services (AQIS).

Bahrainisation reached a level of 79% and the continuous training, development and education of all employees received the customary priority attention.

These achievements are the result of the continuous encouragement and interest of His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain, His Highness Shaikh Khalifa bin Salman Al Khalifa, Prime Minister and His Highness Shaikh Salman bin Hamad Al Khalifa, Crown Prince and Commander-in-Chief of the Bahrain Defence Force.

In addition, the contribution and support of private organisations in Bahrain, SABIC and PIC and their contribution to the success of GPIC cannot be underestimated.

The success of GPIC was perhaps best captured in the appointment of Dr. Mustafa Al Sayed, the General Manager, as President of BAPCO. I would like to record my sincere thanks to Dr. Al Sayed for his contribution to the success of GPIC. I especially thank him for engendering the team spirit which has become a unique feature of this pioneering company. I also record my gratitude for his instilling confidence and an eagerness to outperform others while being creative, in the entire GPIC workforce. We wish Dr. Al Sayed every success in his new position and at the same time wish his successor the newly appointed General Manager, Mr. Abdulrahman Jawahery the very best for the future.

I would like to record my sincere thanks and appreciation to our shareholders and marketers, PIC, Kuwait and SABIC, Saudi Arabia for their substantial support in this field.

Finally, I wish to sincerely thank the entire GPIC workforce for their diligence and loyalty which contributed so much to the company's overall success and profitability.



Isa bin Ali Al Khalifa
Chairman



BOARD OF DIRECTORS



H.E. Shaikh Isa bin Ali Al Khalifa
Chairman



Mr. Nasser Ahmed Al Sayyari
Deputy Chairman



Mr. Mohammed A. Rahman Al-Terkait
Managing Director



Mr. Yusuf Hamad Alateeqi
Board Member
from 30th May 2004



Mr. Ahmed A. Rahman Al Sayed
Board Member



Mr. Anwar Saeed bin Salama
Board Member



Mr. Mohammed Ali Alymni
Board Member
from 1st September 2004



Mr. Ahmed Ali Al Sharyan
Board Member



Mr. A. Aziz Mohammed Alrawaf
Board Member
from 1st September 2004



Mr. Attalah Awad Al Mutairi
Board Member
up to 29th May 2004



Mr. Rasheed Ghonaim Al Motairi
Board Member
up to 31st August 2004



Mr. Ali Mohammed Al Ayed
Board Member
up to 31st August 2004

BOARD OF DIRECTORS' REPORT

to the Shareholders

for the year ended 31 December 2004

The Board of Directors is pleased to present its twenty fifth Annual Report highlighting the achievements of the company in the technical, financial, marketing and human resources fields for 2004.

The year saw the company rise to new heights and achievements. Specific highlights were achieving OHSAS 18001 certification, receiving a 'Highly Commended' Award for Industrial Safety from RoSPA, UK, receiving the Ministry of Labour's Award for Safety and Health Excellence and receiving HH Shaikh Abdulla bin Hamad Al Khalifa, Chairman of the Public Commission for Protection of Marine Resources, Environment and Wildlife's Award for the best environmental garden in industries in Bahrain. A further accolade was bestowed on GPIC with the company's Urea export facilities qualifying for Level 1 Systems Status under the auspices of the Australian Quarantine Inspection Services (AQIS), the first wharf in the region to achieve this qualification. GPIC's marine export facilities also qualified for the International Code of Security of Ships and Ports (ISPS) during 2004.

A singular honour was accorded GPIC with the appointment of the General Manager, Dr. Mustafa Al Sayed, as President of the Bahrain Petroleum Company (BAPCO). His replacement, Mr. Abdulrahman Jawahery, was promoted from within the company and a very smooth and seamless transition was therefore made possible.

The high quality maintenance work coupled with the continuous close monitoring of plant conditions, modifications, capital projects and improvement practices resulted in the effective economic life of the existing plants being extended to 2024. This extension was the result of a comprehensive asset evaluation study by an international consultant and is fully endorsed by the external auditors and approved by the Board of Directors.

As a direct result of the above mentioned diligent work and the continuous cost awareness of the workforce the company was able to achieve a net profit of US\$ 95.7 million.

Production of all three products, Ammonia, Urea and Methanol, continued throughout the year and a total production of 1,287 million tonnes was achieved. This is identical to the production figure for 2003 and translates into a annual saleable product total of 999,158 tonnes for the year.

In spite of power supply issues encountered, GPIC was able to meet its targets, while enhancing the various systems inside the complex and planning the replacement of equipment where necessary to ensure continued reliable production.

The company successfully and safely exported a total volume of 1,045,571 tonnes in 65 ships. It is a reflection of the excellent coordination between GPIC and its marketers that all customers' requirements were fully met during 2004.

The continuing attention to safety is reflected in the accumulation of 3.2 million employee-hours free of a lost-time accident (956 employee-days). The contractors' personnel on site accumulated 1.01 million working hours (493 days) without a lost-time accident by 31 December 2004, giving a total for the GPIC complex of 4.2 million employee-hours.

The company's Training Centre continued to offer the relevant training programmes to meet all staff development requirements. In addition, regular safety, health and environmental lectures as well as lectures of educational or general interest nature were organised.

The monthly manpower strength averaged 474 for the year in addition to 50 trainees. The cumulative number of graduates who had completed their training totalled 358, compiled of 171 in operations, 38 in technical services, 61 in maintenance, 30 in safety and security and 58 engineers. The Bahrainisation level stood at 79% by year end.

The Board of Directors wishes to express its sincere thanks and appreciation to His Majesty King Hamad bin Isa Al Khalifa of the Kingdom of Bahrain, HH Shaikh Khalifa bin Salman Al Khalifa, the Prime Minister and HH Shaikh Salman bin Hamad Al Khalifa, Crown Prince and Commander-in-Chief of the Bahrain Defence Force for their keen interest and support.

The Board also wishes to express its sincere thanks and appreciation to the shareholders, the Government of Bahrain, PIC, Kuwait and SABIC, Saudi Arabia for their support to the company and for their valuable guidance.

Finally the Board of Directors wishes to sincerely thank the company's management, especially the outgoing General Manager and staff for their consistent hard work, loyalty and significant contribution to the success of GPIC. The Board also wishes the incoming General Manager, the management team and the workforce every success for 2005.



EXECUTIVE MANAGEMENT



Dr. Mustafa Al Sayed
General Manager
up to 20th October 2004



Mr. Eduard Horn
Deputy General Manager
for Technical Affairs



Mr. A. Rahman A. Hussain Jawahery
Plants Operation Manager



Mr. Yousif Abdulla Yousif
Technical Services Manager



Mr. Yasser Abdulrahman Abdulla
Finance Manager
up to 31st October 2004



Mr. Adnan A. Razaq Al Mahmood
Information Technology Manager



Mr. Fawzi Ahmed Al Jaber
Administration Manager



Mr. Yusuf Ebrahim Fakhroo
Marketing and Planning Manager



Mr. Ahmed Abdulla Nuruddin
Maintenance Manager



Mr. Zuhair Abdulaziz Tawfiqi
Public Relations Manager



Mr. Yasser A. Rahim Mohammed
Safety and Security Manager



Mr. Fadhel Malalla Al Ansari
Plants Operation Coordinator



PRODUCTION PERFORMANCE

During 2004 GPIC operated safely and at levels of efficiency and capacity commensurate with the physical status of critical items of equipment.

In spite of coping with two major electricity grid supply failures, production was restored and operations stabilised in the shortest time possible.

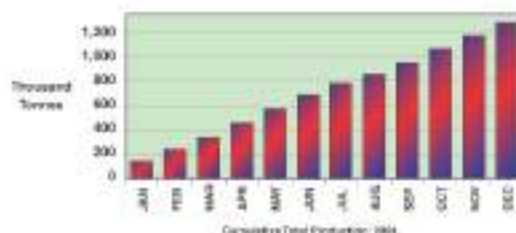
The Ammonia Plant achieved a utilisation factor of 96.3% for 2004 and produced a total of 378,726 tonnes, bringing the cumulative production over the life of the plant to 7.8 million tonnes.

The Methanol Plant production was 100.3% of budget while the utilisation factor was 101.8%. This is an exceptional achievement considering the plant is approximately 20 years old. The plant produced 398,406 tonnes during the year which brings the cumulative production over the life of the plant to 7,875,498 tonnes.

The Urea Plant output was restricted due to the carbon dioxide limitations from the Ammonia Plant. The plant produced a total of 509,776 tonnes, bringing the cumulative production since 1998 to 3.8 million tonnes. A utilisation factor of 92.8% was achieved.

For the first time since initial commissioning, a 20,000 tonne Ammonia Storage Tank was taken off-line, decommissioned and inspected before returning it to service. This was a major project executed over 5 months while the remainder of the plant remained on line. The entire project was completed safely, successfully and within the time frame allowed. It is clear evidence of the meticulous planning and execution, utilising the most modern techniques and equipment, that went into this exercise.

The Utilities Section maintained its extremely reliable service to the production plants, further enhancing the overall stability and reliability of the complex.



Product	Tonnage
Ammonia	378,726
Methanol	398,406
Urea	509,776
Total Production	1,286,908
Ammonia consumed for Urea production	287,750
Saleable Production	999,158



SAFETY, HEALTH AND ENVIRONMENT

The year 2004 will stand out as one of excellence for GPIC in terms of the company's performance in Safety, Health and Environmental Care.

A major achievement was the successful accreditation of the company's occupational health, safety and industrial hygiene management system to the OHSAS 18001 : 1999 standard. In addition, the Process Safety Management System mandated by OSHA was fully implemented in all operational activities.

GPIC also received the International Code for the Security of Ships and Port Facilities (ISPS) for its marine export facilities.

The company's success was further recognised by the receipt of a Highly Commended Award from the Royal Society for the Prevention of Accidents in the Chemical and Refineries Sector. In addition, GPIC also received the Ministry of Labour and Social Affairs' Health and Safety Excellence Award.

By the end of 2004, GPIC had accumulated 3.2 million employee-hours (956 continuous working days) without a lost-time accident. The contractor personnel working on site also enjoyed a lost-time accident free year, evidence of GPIC's comprehensive safety induction and safety awareness campaigns.

The company continued its active participation in the Sitra Wharf Mutual Aid Organisation Committee's activities.

A very successful and enjoyable Annual Safety, Health and Environmental Week, utilising the slogan "Safety is OUR Business", combining employees, their families as well as the contracting firms on site, was held during 2004.

GPIC further enhanced its involvement in environmental awareness programmes by establishing the GPIC Environmental Research Fund in conjunction with the Ministry of Education. Twenty one projects have been funded in educational institutions to study a wide variety of environmental issues. The well-established GPIC Environmental lectures to students continued and more than 24 lectures attended by approximately 1800 students were arranged.





TECHNICAL SERVICES



ENGINEERING:

Capital projects costing BD 6.3 million were processed during 2004. BD 5 million was spent on reliability and modernisation, including the replacement of the process gas cooler and waste heat boiler on the Ammonia Plant, modernisation of the internals of the Benfield unit and an upgrade of the interstage separators for the process air compressor. BD 1 million was spent on improving safety and the environment, including the procurement of new mobile foam and water monitors and a fire protection system for the carbon dioxide compressor in the Urea Plant.

During the year, 82 plant modifications costing about BD 500,000 were designed and processed. Process hazard assessments were carried out to ensure the safety and integrity of the plants were maintained.

A state of the art electronic data management system was installed and commissioned for the efficient management of engineering documentation.

The energy consumption and the efficiency of the process equipment were continuously monitored.

INSPECTION:

Significant progress was made on Risk Based Inspection on the Ammonia and Methanol Plants. The Ammonia Tank, T-7101-B was internally inspected for the first time since commissioning, using guidelines recently published by the European Fertilizer Manufacturers Association.

A complete survey on non-return valves was conducted and this was used to refine inspection intervals and replacement strategies. A specialist company has been approached to conduct remaining life assessment of the Ammonia reformer catalyst tubes and the utilities boilers.

All GPIC inspectors have been requalified to ASNT level 2 in dye penetrant and magnetic particle inspection and have attended a course on eddy current inspection. Two inspection engineers were also requalified as API 510 and API 570 inspectors.

New equipment was purchased, including a remote controlled video crawler, to enable inspection of otherwise inaccessible locations and to enhance the section's heat exchanger inspection capabilities. Software was obtained to manage the qualification of site welders.



LABORATORY:

During 2004, the laboratory took over 50,000 routine samples, on which it carried out over 174,000 routine analyses. In addition over 9,500 special analyses were carried out on over 3,100 special samples.

In 2004, the laboratory issued 17 final product certificates for Ammonia, 37 certificates for Methanol and 33 for Urea. It also monitored the effluent water and gases from the complex, which were once again well within the applicable Bahrain environmental standards. Independent audits by BSI, Lloyds Register and DNV confirmed the laboratory's continued compliance with the requirements of the ISO 9001, ISO 14001 and OHSAS 18001 standards.

Two new Bahraini chemists and a Bahraini Senior Day Analyst were appointed during the year. The Bahrainisation level in the laboratory is now over 88%.

**MATERIALS:**

During 2004, Stock Control and Warehouse received 1,797 consignments, valued at over BD 4.7 million and issued 15,238 items from stock. Purchasing received 1,529 requisitions, issued 1,275 inquiries and placed 1,344 orders. The total value for goods and services was over BD 15.5 million.

During 2004 a permanent committee for Inventory Optimisation was formed which will be responsible for the continuous review of stock and which will recommend improvements.

A saving of 7.5% was made through price negotiations with suppliers and vendors. The procurement lead-time was also considerably reduced by improving productivity and the automation of manual work activities.





MAINTENANCE



During 2004 the GPIC Maintenance Department concentrated on the promotion of reliability in order to enhance the proactive maintenance concept. Consequently the ratio of corrective maintenance work orders to preventative/predictive maintenance work orders approached the world class standard of 40:60.

The general streamlining of maintenance work processes and the establishment of Key Performance Indicators to measure maintenance productivity resulted in an annual routine maintenance cost of BD 1,400/tonne of product for 2004. Throughout the complex 7,700 routine maintenance work orders were carried out.

The Maintenance Department also concentrated on Competency-based Training to ensure that staff members receive effective training to systematically improve the skills required for meaningful career development.

The in-house Spare Parts Manufacturing Programme in the GPIC Workshops contributed BD 280,000 in savings on stock item procurement. This is the highest annual total since inception of the programme four years ago and has raised the cumulative savings of this project to BD 728,000.



MARKETING

The combined total for sales of Ammonia, Methanol and Urea came to 1,045,572 tonnes for 2004. This total was made up of 89,998 tonnes of Ammonia, 408,223 tonnes of Methanol and 547,065 tonnes of Granular Urea, while 285 tonnes of Urea were sold in the local market. These volumes were safely and timeously exported without incurring demurrage charges and without a single customer complaint.

The cumulative export tonnage over the life of the company totaled 17.3 million, comprising 5.6 million tonnes of Ammonia, 7.9 million tonnes of Methanol and 3.8 million tonnes of Urea.

GPIC Exports - 2004



These figures all reflect the excellent coordination and cooperation between the GPIC Marketing and Planning Department and the company's marketers, PIC, Kuwait for Ammonia and Granular Urea and SABIC, Saudi Arabia for Methanol. This coordination has led to optimum returns to GPIC from these sales.





TRAINING AND DEVELOPMENT

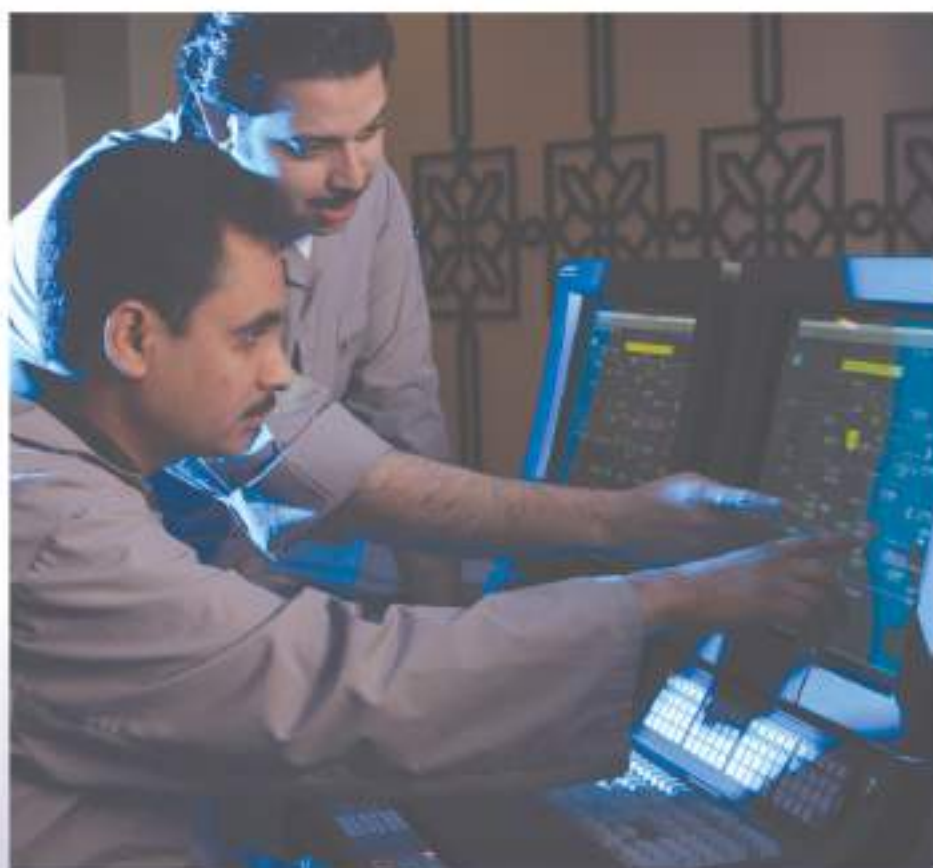


Training and development of the company's Bahraini nationals represent a major priority for GPIC's management.

The company's training policy aims to achieve a progressive integration of Bahraini nationals into its workforce through the implementation of a well-structured and systematic training and career development scheme. This scheme comprises an effective on-the-job training programme, as well as providing development courses in GPIC's Training Centre, locally or abroad.

The average monthly manpower during 2004 was 474 plus 50 trainees. The cumulative number of trainees who completed their training at the end of the year was 358, out of which 171 were appointed in the Operations, 38 in the Technical Services, 61 in the Maintenance, 30 in Safety & Security and 58 as Engineers. By the end of the year, the overall Bahrainization level reached 79%.

During 2004 the Training Center continued to arrange Quality, Safety, Health and Environment awareness lectures for all employees.







SOCIAL AND SPORTS EVENTS



إحتفال الشركة السنوي
(٢٨ ديسمبر ٢٠٠٤م)

GPIC's Annual Celebration
(28th December 2004)



إحتفال الشركة باليوم الوطني للبيئة
(٨ فبراير ٢٠٠٤م)

GPIC Marks National Environment Day
(8th February 2004)



مخيم الشركة الترفيهي السنوي
(يناير وفبراير ٢٠٠٤م)

GPIC's Annual Desert Camp
(January - February 2004)



المنافسة السنوية لصيد السمك
(٣٠ سبتمبر ٢٠٠٤م)

Annual Charity Fishing Competition
(30th September 2004)



الدورة الداخلية لكرة القدم في الشركة
(١ نوفمبر ٢٠٠٤م)

GPIC's Internal Soccer Tournament
(1st November 2004)

الأنشطة الإجتماعية والرياضية



معالي وزير النفط رئيس مجلس الإدارة يفتتح نادي الشركة
(١٩ يونيو ٢٠٠٤م)

H.E Shaikh Isa Bin Ali AL-Khalifa Opening GPIC Club
(19th June 2004)



الطبق الخيري الصحي في البتروكيماويات
(٢٧ أبريل ٢٠٠٤م)

Charity Plate in GPIC
(27th April 2004)



الاحتفال بيوم السلامة العالمي
(٢٧ أكتوبر ٢٠٠٤م)

GPIC Family Day
(27th October 2004)



آباء العاملين يحتفلون بالعيد الوطني المجيد في نادي الشركة
(١٨ ديسمبر ٢٠٠٤م)

Employee's Children Celebrating National Day in GPIC Club
(18th December 2004)



البتروكيماويات تفوز بالمركز الأول في مسابقة الإطفاء
(٢٦ مايو ٢٠٠٤م)

GPIC won the first place in the Annual Industrial Fire Drill Competition
(26th May 2004)